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Nova Scotia Municipal Finance Corporation

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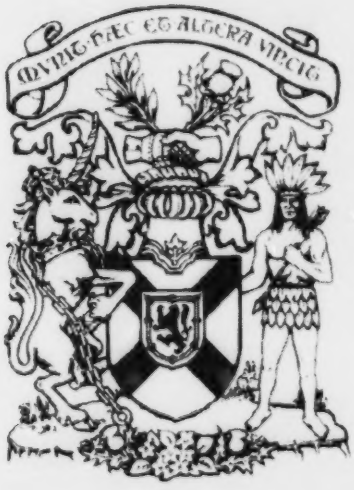
11th Annual Report
1990



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How the Corporation Functions

Authority

The Nova Scotia Municipal Finance Corporation was established by an act of the Legislature of the Province of Nova Scotia in 1979, being Chapter 301 of the Revised Statutes of Nova Scotia, 1989.

Purpose

The Corporation's purpose is to provide financing of the capital requirements of municipalities, school boards, and hospitals by issuing its securities and relending the funds to these entities.

All municipalities and school boards must finance, and hospitals may finance, their capital requirements through the Corporation, except for interim financing and certain projects for which funds may be borrowed from the Government of Canada, the Province, or other municipalities within the province.

Administration

The affairs of the Corporation are managed by a Board of Directors appointed by the Governor in Council. Forty per cent of the members are appointed upon the recommendation of the Union of Nova Scotia Municipalities.

The administrative budget approved by the Minister of Municipal Affairs shall be cost-shared by the Province to the extent of one-half, or such larger proportion as the Governor in Council may prescribe in any year. The remainder of the approved administrative expenses is to be paid by the Corporation and/or the borrowing units.

Support staff and resources of the provincial Departments of Attorney General, Finance, and Municipal Affairs have been provided to the Corporation.

Office location:

1701 Hollis Street, Suite 302, Halifax, Nova Scotia

Mailing address:

PO Box 850, Station M, Halifax, Nova Scotia B3J 2V8

Telephone: (902) 424-4590 Fax: (902) 424-0525

Directors and Officers

Directors of the Corporation

Richard S. Brookfield, F.C.A.
Chairman and Chief Executive Officer

Edgar G. Cramm, M.P.A.
Director, Finance and Advisory Services
Department of Municipal Affairs

Douglas McC. Carter
Mayor of Truro, Nova Scotia

R. Wendell Phinney
President, Phinney Holdings Limited
Kentville, Nova Scotia

Harold A. Renouf, O.C., F.C.A., LL.D.
Business Consultant, Halifax, Nova Scotia

Officers of the Corporation

Chairman and Chief Executive Officer
Richard S. Brookfield, F.C.A.

Secretary
R. Mark Gilbert, M.B.A.
Municipal Advisor, Department of Municipal Affairs

Treasurer
Shirley L. Carras, C.A.

General Counsel
James G. Spurr, M.B.A., LL.B.
Financial Counsel, Department of the Attorney General

Assistant Treasurer
Richard W. McAloney, C.A., C.I.A.
Manager of Financial Reporting and Analysis
Investment Division, Department of Finance

Director's Report

Market Conditions

High interest rates prevailed for most of 1990. Early in the year, indications of a slowing economy were soon overtaken by persistent inflationary pressures. Other factors which tended to keep Canadian interest rates high were concerns over the inflationary effects of the proposed Goods and Services Tax, the failure of the Meech Lake Accord, continuing high government deficits resulting in heavy borrowing requirements, and rising international interest rates.

Interest rates rose sharply during the first four months of 1990, and then reduced slightly as recession concerns increased. The invasion of Kuwait by Iraq in August and the resulting escalation of tensions in the Middle East quickly reversed this improvement. Interest rates continued to rise until the fourth quarter when rates began a modest decline.

The inverse yield curve experienced in 1989 continued throughout 1990. By the fourth quarter this yield curve had become much flatter, though still inverse in the short term.

Loans to Municipal Units, School Boards and Hospitals

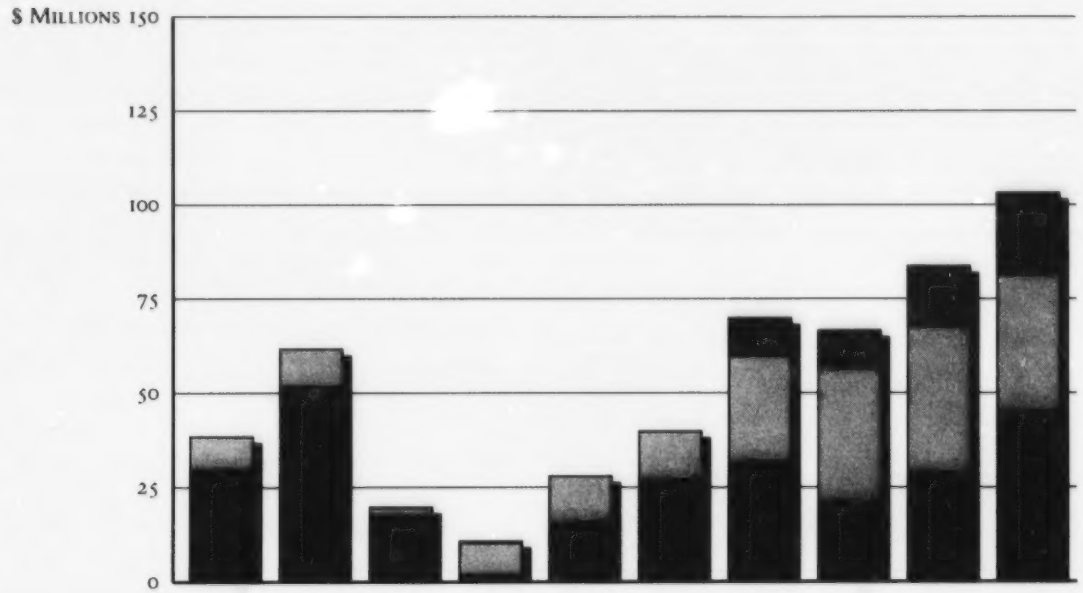
During the year, long-term loans were made to 23 municipal units, 18 school boards, and 4 hospitals, totalling $103,164,450 which were used for the following purposes:

	Projects Administered by Departments of		
	Municipal Affairs	Education	Health & Fitness
Schools	$	$ 36,092,186	$
Hospitals			21,961,061
Water	3,410,500		
Sewer	8,334,300		
Streets	5,499,600		
Buildings	3,642,541		
Land	12,338,600		
Electric utilities	707,000		
Equipment	2,763,706		
Recreation	4,106,400		
Solid waste	491,315		
Sewage treatment	3,000,000		
Transit	587,241		
Parking lots	230,000		
	$ 45,111,203	$ 36,092,186	$ 21,961,061
Number of Loans	29	30	4

Three interim loans totalling $392,819 were made during the year to two borrowing units. These loans were repaid from the proceeds of long-term loans made to these units.

In each of the last 10 years, long-term loans were made as depicted in the following chart:

Long-Term Loans Made During Year



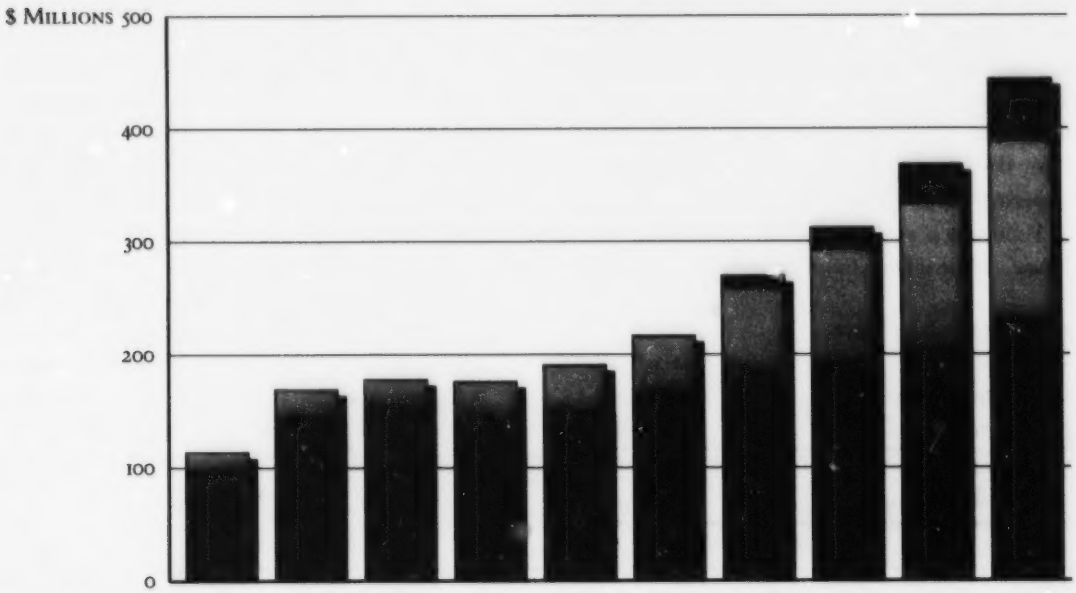
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Municipal	29.9	51.7	17.6	2.1	15.8	26.9	31.7	21.2	28.8	45.1
School Boards	8.6	10.0	2.2	8.3	12.2	13.0	28.1	35.1	38.7	36.1
Hospitals	—	—	—	.4	—	—	10.1	10.3	16.2	22.0
Total	**38.5**	**61.7**	**19.8**	**10.8**	**28.0**	**39.9**	**69.9**	**66.6**	**83.7**	**103.2**

Note: The amount of debentures issued during the year approximates the long-term loans made.

The accumulated loans outstanding at December 31, 1990, amounted to $443.9 million, comprising $232.6 million to municipal units, $156.6 million to school boards, and $54.7 million to hospitals. The following chart shows the total loans outstanding at the end of each of the last 10 years, broken down by category:

Loans to Municipal Units, School Boards and Hospitals

as at December 31



	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Municipal	99.8	146.4	155.2	147.0	152.3	168.3	187.1	192.6	204.5	232.6
School Boards	13.9	22.9	22.9	29.0	38.2	48.2	72.0	100.0	129.5	156.6
Hospitals	—	—	—	.4	.4	.4	10.4	19.7	34.3	54.7
Total	**113.7**	**169.3**	**178.1**	**176.4**	**190.9**	**216.9**	**269.5**	**312.3**	**368.3**	**443.9**

Note: The amount of debentures outstanding at the end of each year approximates the loans outstanding.

Borrowing Program

Two debenture issues in the domestic Canadian market, totalling $103,000,000 during 1990, provided funds for the loans to municipal units, school boards, and hospitals. Both borrowings were 10-year public issues, the first in June for $44 million at 11.75 per cent interest, and the second in November for $59 million at 11.90 per cent interest.

Trust Funds under Administration

The Corporation administers sinking funds on behalf of borrowing units. These sinking funds, which relate to 106 loans to units totalling $152 million, are to be applied to the repayment of these loans at maturity and will in turn provide the Corporation with the funds to repay the corresponding debenture issues on their respective maturity dates.

Following is a summary of the continuity of the balance of the sinking funds for the year:

Balance of Sinking Funds – January 1, 1990	$	21,247,077
Installments received		9,008,128
Net income earned		2,749,963
Balance of Sinking Funds – December 31, 1990	$	33,005,168

Cost of Administration

In 1990, the Province of Nova Scotia continued to assume all the administrative expenses of the Corporation, as has been its practice in previous years. The administrative expenses, which totalled $253,765, were $35,035 under budget.

Acknowledgements

The Board of Directors wishes to express its appreciation for the financial assistance provided by the provincial government. We note in particular the continued cooperation received from the Departments of Attorney General, Education, Finance, Health and Fitness, and Municipal Affairs. Each of these departments has contributed the services of staff, which provided assistance to the Corporation. The Directors acknowledge the excellent contribution made by the staff members of the Corporation.

Richard S. Brookfield
Chairman and Chief Executive Officer

Auditors' Report

To the Chairman and Members of the Board of Directors of the Nova Scotia Municipal Finance Corporation

We have audited the statement of financial position of the Nova Scotia Municipal Finance Corporation as at December 31, 1990 and the statements of revenue, expenditure and reserve fund and changes in financial position for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peat Marwick Thorne

Chartered Accountants

Halifax, Canada

February 15, 1991

Statement of Financial Position

December 31, 1990, with comparative figures for 1989

Assets

	1990	1989
CURRENT ASSETS:		
Cash	$ 17,461	$ 75,666
Short-term investments, at cost which approximates market value	4,870,000	3,975,000
Accrued interest receivable	7,724,254	7,656,348
Principal due within one year on loans to units	27,141,304	27,592,789
	39,753,019	39,299,803
LONG-TERM ASSETS:		
Loans to units (note 2)	443,907,195	368,335,534
Less principal included in current assets	27,141,304	27,592,789
	416,765,891	340,742,745
DEFERRED CHARGES:		
Discount on debenture debt	1,340,760	1,340,760
Less accumulated amortization	1,071,997	991,081
	268,763	349,679
	$ 456,787,673	$ 380,392,227
TRUST FUND ASSETS (note 3)	$ 33,005,168	$ 21,247,077

Liabilities and Equity

	1990	1989
CURRENT LIABILITIES:		
Accounts payable	$ 70,008	$ 145,996
Accrued interest payable	8,163,851	7,821,400
Principal due within one year on debenture debt	27,023,000	27,430,000
	35,256,859	35,397,396
LONG-TERM DEBT:		
Debenture debt (note 4)	443,858,000	368,288,000
Less principal included in current liabilities	27,023,000	27,430,000
	416,835,000	340,858,000
DEFERRED CREDITS:		
Discount on loans to units	1,393,421	1,337,282
Less accumulated amortization	1,089,427	1,005,823
	303,994	331,459
EQUITY:		
Reserve fund	4,391,820	3,805,372
	$ 456,787,673	$ 380,392,227
TRUST FUNDS UNDER ADMINISTRATION (note 3)	$ 33,005,168	$ 21,247,077

See accompanying notes to financial statements.

APPROVED ON BEHALF OF THE BOARD:

Director

Director

Statement of Revenue, Expenditure and Reserve Fund

Year ended December 31, 1990, with comparative figures for 1989

	1990	1989
REVENUE:		
Interest on loans to units	$ 44,732,171	$ 38,852,349
Amortization of discount on loans to units	83,604	91,995
Interest on short-term investments	558,274	457,684
Current discount on loans to units	897,528	857,815
Grant, Province of Nova Scotia for administrative expenses	253,765	225,062
	46,525,342	40,484,905
EXPENDITURE:		
Interest on debenture debt and short-term loans	44,786,606	38,907,695
Amortization of discount on debenture debt	80,916	93,602
Debenture issue expenses	817,607	638,161
Administrative expenses (note 5)	253,765	225,062
	45,938,894	39,864,520
NET REVENUE, BEING AN INCREASE IN RESERVE FUND	586,448	620,385
Reserve fund, beginning of year	3,805,372	3,184,987
RESERVE FUND, END OF YEAR	$ 4,391,820	$ 3,805,372

See accompanying notes to financial statements.

Statement of Changes in Financial Position

Year ended December 31, 1990, with comparative figures for 1989

	1990	1989
CASH DERIVED FROM:		
Net revenue	$ 586,448	$ 620,385
Add (deduct) items not involving cash:		
Amortization of discount on loans to units	(83,604)	(91,995)
Amortization of discount on debenture debt	80,916	93,602
	583,760	621,992
Issue of debentures of $103,000,000 issued at par (1989 – $83,100,000 issued at par)	103,000,000	83,100,000
Principal received on loans to units	27,592,789	27,635,923
Change in non-cash working capital	198,557	(383,838)
	131,375,106	110,974,077
CASH APPLIED TO:		
Loans of $103,164,450 to units on security of debentures, net discounts of $56,139 (1989 – $83,689,378 plus premium of $6,358)	103,108,311	83,695,736
Principal payments on debenture debt	27,430,000	27,452,000
	130,538,311	111,147,736
INCREASE (DECREASE) IN CASH POSITION	836,795	(173,659)
Cash position, beginning of year	4,050,666	4,224,325
CASH POSITION, END OF YEAR	$ 4,887,461	$ 4,050,666

Cash position is defined as cash plus short-term investments.

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended December 31, 1990

Created by the Municipal Finance Corporaton Act, which was proclaimed on July 31, 1979, the corporation began operations on January 1, 1980, and its fiscal year-end is December 31. The object of the corporation is to provide financing of approved capital projects for municipalities, municipal enterprises, including district school boards, and hospitals through a central borrowing authority.

1. Significant accounting policies:

(A) Discounts on debenture debt and loans to units are being amortized over the life of the debentures payable and the loans receivable to which they relate, using the debentures outstanding method.

(B) The Reserve Fund was created from interest earnings on funds which had been advanced by the Province of Nova Scotia and have since been repaid and interest on other surplus monies available from time to time, as well as from discounts on loans to units. The purpose of the Reserve Fund is to provide a capital base for the corporation as well as to provide for funds which may be required for administrative purposes and timing differences.

2. Loans to units:

(A) Loans to units are made on the security of their debentures, due in annual instalments for periods up to a maximum of twenty years. Due to existing provisions for the recovery of any defaults by units, an allowance for doubtful accounts is not required.

(B) Principal payments receivable in each of the next five years are as follows:

1991	$ 27,141,304
1992	36,304,079
1993	23,888,642
1994	24,014,496
1995	24,961,705

3. Trust funds under administration:

Trust fund assets totalling $33,005,168 (1989 – $21,247,077) are held on behalf of certain municipal units, district school boards, and hospitals, and represent sinking funds to be applied to the repayment of their related outstanding debenture debt at maturity.

4. Debenture debt:

(A) The debenture debt outstanding at December 31, 1990 totalling $443,858,000 (1989 – $368,288,000) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia.

Series	Date Issued	Maturity Date	Interest Rate	Debt Outstanding
A	Jan. 4/80	1991 to 2000	11.250	$ 12,500,000
B	July 2/80	1991 to 2000	12.000	7,000,000
C	Dec. 19/80	1991 to 2000	13.375	12,500,000
D	Dec. 19/80	1991 to 2000	13.375	5,000,000
E	Sept. 10/81	1991	17.500	651,000
F	Dec. 22/81	1996	15.000	35,000,000
G	Jan. 28/82	1991 to 1994	15.750	8,200,000
H	July 12/82	1992	15.500	10,000,000
J	Nov. 23/82	1991 to 1992	13.000	4,240,000
K	Sept. 7/83	1991 to 1998	12.250 – 12.750	7,300,000
L	Nov. 9/83	1991 to 1993	12.000	630,000
M	Aug. 28/84	1991 to 1999	14.000 – 14.250	4,500,000
N	Apr. 2/85	1991 to 2005	11.750 – 12.500	9,825,000
P	Dec. 11/85	1991 to 2000	10.250 – 11.000	6,750,000
Q	July 22/86	1991 to 1996	9.750 – 10.000	17,358,000
R	Nov. 5/86	1991 to 1996	9.750 – 10.000	8,980,000
S	May 14/87	1991 to 1997	8.000 – 8.750	24,878,000
T	Dec. 15/87	1991 to 1997	10.250 – 10.750	24,493,000
U	May 11/88	1991 to 1998	9.500 – 10.375	15,433,000
V	Nov. 3/88	1991 to 1998	10.500 – 11.000	42,520,000
W	Apr. 26/89	1999	11.250	40,100,000
X	Nov. 16/89	1999	10.500	43,000,000
Y	June 21/90	2000	11.750	44,000,000
Z	Nov. 15/90	2000	11.900	59,000,000
				$ 443,858,000

Interest is payable semi-annually.

(B) Principal payments due in each of the next five years are as follows:

1991	$ 27,023,000
1992	36,372,000
1993	23,723,000
1994	22,786,000
1995	19,887,000

5. Administrative expenses:

	1990 Budget	1990 Actual	1989 Actual
Salaries and benefits	$ 211,500	$ 198,950	$ 183,562
Travel	5,700	4,310	3,089
Equipment and maintenance	4,400	10,351	3,131
Printing	2,500	1,688	1,993
Postage	4,300	3,124	2,987
Telephone	5,200	4,519	3,424
Stationery and supplies	3,200	2,010	3,456
Professional services	30,000	8,438	7,400
Bank charges	5,900	7,614	5,349
Directors' fees and expenses	4,600	2,860	3,195
Professional development	4,600	3,080	1,382
Dues and subscriptions	2,450	2,559	2,311
Insurance	1,835	1,315	1,676
Other	2,615	2,947	2,107
	$ 288,800	$ 253,765	$ 225,062

6. Income taxes

The corporation is not subject to provincial or federal incomes taxes.